N.B. COAL LIMITED

REPORT AND FINANCIAL STATEMENTS

March 31, 1999

Deloitte & Touche

Deloitte & Touche

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AUDITORS' REPORT

To the Shareholder of
N.B. Coal Limited

We have audited the consolidated balance sheet of N.B. Coal Limited as at March 31, 1999 and the consolidated statements of income, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

May 26, 1999

Deloitte Touche Tohmatsu

N.B. COAL LIMITED
CONSOLIDATED STATEMENT OF INCOME
year ended March 31, 1999

	1999		1998	
REVENUES				
Operating revenues	$ 23,141,559		$ 20,509,083	
Miscellaneous	(181,075)		311,714	
		22,960,484		20,820,797
EXPENSES				
Mining and maintenance	10,147,229		8,178,469	
General and administrative	2,669,193		2,116,246	
Land reclamation	389,314		229,320	
Early retirement programs	(26,507)		221,317	
Change in inventory levels	(6,400)		87,395	
Depreciation	5,090,801		4,434,089	
		18,263,630		15,266,836
Income before finance charges		4,696,854		5,553,961
Financing charges short-term		(77,780)		(28,795)
long-term		4,265,542		4,807,508
INCOME FOR THE YEAR		$ 509,091		$ 775,248
Tons mined		300,246		197,520
Tons sold		300,246		196,479

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N.B. COAL LIMITED
CONSOLIDATED BALANCE SHEET
at March 31, 1999

	1999	1998
CURRENT ASSETS		
Cash	$ 3,368,445	$ 2,083,821
Accounts receivable	170,470	252,550
Inventory (Note 3)	2,694,043	2,719,956
Prepaid expenses	66,791	82,204
	6,299,749	5,138,531
DEFERRED PENSION COSTS	94,400	50,401
PROPERTY, PLANT AND EQUIPMENT (Note 4)	29,341,417	34,600,236
	$ 35,735,566	$ 39,789,168
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,212,917	$ 1,126,599
Deferred revenue	228,005	317,093
Current portion of early retirement programs (Note 5)	789,486	626,256
Current portion of long-term debt (Note 6)	4,280,324	3,974,247
	6,510,732	6,044,195
LONG-TERM LIABILITIES		
Early retirement programs (Note 5)	4,286,888	5,007,769
Long term debt (Note 6)	31,865,294	36,173,643
	42,662,914	47,225,607
DEFICIENCY IN ASSETS		
Capital stock (Note 7)	500	500
Contributed surplus	11,654	11,654
Deficit	(6,939,502)	(7,448,593)
	(6,927,348)	(7,436,439)
	$ 35,735,566	$ 39,789,168

ON BEHALF OF THE BOARD:

_____, Director

_____, Director

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N.B. COAL LIMITED
CONSOLIDATED STATEMENT OF DEFICIT
year ended March 31, 1999

	1999	1998
Deficit, beginning of year	$ (7,448,593)	$ (8,223,841)
Income for the year	509,091	775,248
Deficit, end of year	$ (6,939,502)	$ (7,448,593)

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N.B. COAL LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
year ended March 31, 1999

	1999	1998
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Income for the year	$ 509,091	$ 775,248
Add (deduct) items not involving cash		
Depreciation	5,090,801	4,434,089
Retirement plan liability	(26,507)	221,317
Interest on retirement plan liability	297,419	456,223
Deferred pension costs	(43,999)	(50,401)
Loss (gain)on disposal of property, plant and equipment	345,051	(44,818)
	6,171,857	5,791,658
Net change in non-cash working capital balances **(Note 8)**	120,636	1,600,993
	6,292,493	7,392,651
FINANCING		
Repayment of long-term debt	(4,002,272)	(3,615,233)
	(4,002,272)	(3,615,233)
INVESTING		
Additions to property, plant and equipment	(607,278)	(1,439,345)
Retirement plan liability	(828,563)	(2,018,831)
Proceeds on disposal of property, plant and equipment	430,245	68,302
	(1,005,596)	(3,389,874)
NET CASH INFLOW	1,284,625	387,544
CASH POSITION, BEGINNING OF YEAR	2,083,821	1,696,277
CASH POSITION, END OF YEAR	$ 3,368,445	$ 2,083,821

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1. N.B. COAL LIMITED

The Company is incorporated under the laws of New Brunswick and is a wholly-owned subsidiary of the New Brunswick Power Corporation (NB Power), a Crown Corporation of the Province of New Brunswick. As such, the Company is exempt from income taxes.

Under the terms of a long-term Coal Supply Agreement between the Company and NB Power, the Company has agreed to supply coal production, as required, to NB Power. The agreement also requires the price of the coal to be set annually to include provisions for capital costs, ready-to-service costs and variable costs, as defined.

NB Power's annual coal requirements for the year ended March 31, 1999 resulted in the Company suspending mining operations for four months during the fiscal year.

2. SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year, the more significant of which are outlined below.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Grand Lake Resources Limited.

Inventory

Coal inventory is valued at the lower of average cost, which includes direct labour and overhead, and net realizable value.

Spare parts inventory is stated at the lower of cost, determined on a moving average basis, and replacement value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. For self-constructed assets, cost is defined as direct costs of material and labour, subcontract fees and interest costs incurred during the construction period. Normal repairs and maintenance costs are charged to income as incurred. Major overhauls and improvements which extend the service life of the asset are capitalized.

2. SUMMARY OF ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depletion is provided on certain property acquired for the Salmon Harbour Mine and the Coal Creek Mine at a rate of $.50 per ton of coal mined at the site. This rate is based on the unit of production depletion method. There was no coal mined at these sites during the year ended March 31, 1999.

Depreciation is provided on dragline equipment on an increasing charge basis. The depreciation amount is based upon the amount of debt retirement required for the period.

Depreciation on all other assets is provided on a straight-line basis over the lesser of the projected remaining life of the Grand Lake plant (March 31, 2004) and the estimated useful lives of these assets, as follows:

Roadways, ditches and causeways	3 - 5 years
Buildings and powerlines	20 years
Coal mining equipment (excluding draglines)	3 - 10 years
Vehicles	5 years
Other machinery and equipment	5 years

For vehicles, other machinery and equipment and coal mining equipment, excluding large drills, pumps, and draglines, depreciation is not charged during months when mining operations are suspended.

Deferred exploration costs

The costs of major geological studies undertaken to establish the location and quality of coal deposits are deferred and amortized on a straight-line basis over five years, commencing in the year subsequent to the year in which the exploration costs were incurred.

Deferred revenue

Advances received from NB Power as consideration for reclamation work to be carried out at future dates are recognized as revenue at such time as the expense is incurred and the reclamation work is carried out.

Pension costs and obligations

NB Coal maintains a private contributory defined benefit pension plan for its employees. Pension costs are actuarially determined using the projected benefit method, pro-rated on service and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market related value of pension assets are amortized on a straight-line basis over the expected average remaining service lives of the respective employee group.

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3. INVENTORY

	1999	1998
Coal	$ 381,600	$ 375,200
Spare parts and supplies	2,312,443	2,344,756
	$ 2,694,043	$ 2,719,956

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	1999 Net Book Value	1998 Net Book Value
Property	$ 345,547	$ 129,396	$ 216,151	$ 223,127
Roads, ditches and causeways	942,433	934,134	8,299	50,647
Buildings and powerlines	3,768,088	2,502,614	1,265,474	1,498,809
Coal mining equipment	58,945,116	32,603,644	26,341,472	31,249,849
Vehicles	8,753,494	7,316,911	1,436,583	1,403,804
Other machinery and equipment	898,861	826,095	72,766	124,146
Work in progress	672	-	672	49,854
	$73,654,211	$44,312,794	$29,341,417	$34,600,236

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5. RETIREMENT PROGRAMS

Registered pension plan

The Company maintains a private contributory defined benefit pension plan for its employees as described in Note 2.

Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The actuarial method used incorporates management's best-estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The interest rates on accrued pension benefits and the rate of return on assets used in these calculations was 7%. The latest actuarial valuation done on the private pension plan was December 31, 1997, which was the year-end of the plan.

The actuarial present value of accrued pension benefits as at December 31, 1998 was estimated to be $7,856,200 (1998 - $7,269,800) and the market related value of pension fund assets was $8,773,500 (1998 - $8,296,600).

Determination of pension expense for the year is summarized below:

	1999
Cost of benefits for the year	$ 200,147
Interest cost on accrued benefits	522,168
Interest on pension fund assets	(580,031)
Amortization of transitional surplus	(71,657)
Amortization of (gains) losses	(9,805)
Pension expense	$ 60,822

Total contributions to the plans in excess of pension expense have been set up as an asset under deferred charges.

5. RETIREMENT PROGRAMS (continued)

Non-contributory retirement programs

The Company has instituted an early retirement program which certain employees accepted. The actuarial present value of obligations resulting from these early retirements has been recorded as follows:

	1999	1998
Due within one year	$ 789,486	$ 626,256
Long-term obligation	4,286,888	5,007,769
	$5,076,374	$5,634,025

As a result of the March 31, 1998 actuarial valuation, the non-contributory retirement liability was decreased by $1,128,777. This amount is being amortized to income on a straight line basis over 15 years, beginning in 1998, which was the expected remaining service life of employees in this group.

Similar early retirement plans in years prior to revised pension accounting recommendations of the Canadian Institute of Chartered Accountants result in additional accrued pension benefits with an actuarial present value of approximately $2,500,000 (1998 - $2,700,000). This amount is being expensed to income as incurred. Net pension expense related to these non-contributory retirement programs for the year was $401,977 (1998 - $420,691).

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6. LONG-TERM DEBT

	1999	1998
Capital lease obligations Pitney Bowes of Canada Ltd., payable in equal monthly installments to the year 2000 at 7.76% per annum.	$ -	$ 107,899
	-	107,899
Subordinated debentures issued to NB Power, with interest at 9.75% per annum payable semi-annually, maturing in the year 2006.	4,500.000	4,500,000
Long-term note issued to NB Power, with interest at 8.84% compounded monthly, repayable by 2004 with blended monthly payments of $251,778.	12,158.283	14,007,025
Subordinated debentures issued to NB Power, with interest at 10.66% per annum payable semi-annually, maturing in the year 2009.	5,500.000	5,500,000
Long-term note issued to NB Power, with interest at 10.60% compounded semi-annually, repayable by 2004 with monthly blended payments of $258,918.	12,081.397	13,835,094
Long-term note issued to NB Power, with interest at 8.11% per annum, repayable by 2004 with monthly blended payments of $10,858.	535,814	619,707
Long-term note issued to NB Power, with interest at 9.12% compounded semi-annually, repayable by 2004 with monthly blended payments of $28,409.	1,370,124	1, 578,165
	36,145,618	40,147,890
Less: amount due within one year	4,280,324	3,974,247
	$31,865,294	$36,173,643

6. LONG-TERM DEBT (continued)

Annual repayments of long-term debt for each of the next five years are expected to be as follows:

Year	Long-term principal repayments
Year ending March 31, 2000	4,280,324
Year ending March 31, 2001	4,710,237
Year ending March 31, 2002	5,186,786
Year ending March 31, 2003	5,698,685
Year ending March 31, 2004	6,275,586

NB Coal Limited has bank lines of credit of $4,000,000 which are secured by a general assignment of book debts. Two irrevocable standby letters of credit related to future land reclamation totaling $208,000 have been applied to the line of credit.

Fair Value

The fair value of the company's long-term debt cannot be practically determined with sufficient reliability. The information provided above relative to the interest rate and repayment obligations is pertinent to the fair value of the long-term debt.

7. CAPITAL STOCK

	1999	1998
Authorized		
108,000 Class A variable rate cumulative preferred shares of $100 par value each, redeemable at par		
12,460 Class B 10% non-cumulative voting preferred shares of $100 par value each, redeemable at par		
500 common shares at $1 par value		
Issued		
500 common shares	$ 500	$ 500

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8. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	1999	1998
Decrease in		
Accounts receivable	$ 82,080	$ 1,084,009
Inventory	25,913	344,654
Prepaid expenses	15,413	62,829
	123,406	1,491,492
Increase (decrease) in		
Accounts payable and accrued liabilities	86,318	177,759
Deferred revenue	(89,088)	(68,258)
	(2,770)	109,501
	$ 120,636	$ 1,600,993

9. RELATED PARTY TRANSACTIONS

Substantially all sales by the Company were to its parent. Accounts receivable and accounts payable at March 31, 1999 include amounts owing from and to NB Power of $87,571 (1998 - $204,634) and $449,022 (1998 - $504,062) respectively. Also during the year, the Company paid salaries for seconded staff and other direct charges of $683,921 (1998 - $595,765) and financing charges of $3,963,721 (1998 - $4,339,771) to NB Power.

10. CONTINGENCY

The company has an ongoing environmental responsibility to treat acidic water drainage from an inactive mine. Costs of treatment in 1999 were $468,529 (1998 - $455,204).

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11. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.